

THE LEONARD LETTER

February 7, 2005

QUOTE OF THE WEEK

"When a government takes over a people's economic life it becomes absolute, and when it has become absolute it destroys the arts, the minds, the liberties and the meaning of the people it governs." -- Maxwell Anderson (1888-1959) Source: The Guaranteed Life

UNDER THE DOME

Merit Pay Redux

The Governor's call for merit pay for teachers raised hackles among the ranks of teachers in the state. Some are frustrated that no matter how good a job they do they are paid the same as the worst of the profession. There is a sense that on every campus, everyone knows who the good teachers are and who is not quite pulling their weight. Those who are willing to talk about the idea and the issues it raises should consider some creative ways of implementing the Governor's plan. I received this idea from one such teacher. She suggests that teachers who spend extra time receive hourly compensation at their pay scale. Currently, teachers in her district receive extra pay for doing some extras, like supervising after-school sports, but the extra pay is usually at the hourly rate for an entry-level teacher, not someone who has been around for a career. Perhaps an option is to consider paying teachers overtime for tutoring, homework correcting, curriculum development and so forth. I welcome other creative ideas on this topic.

A Bigger Budget Hammer

Last year the Governor received voter approval for Prop. 58 which was meant to put some teeth into the state's budget adoption process. That plan authorized the Governor to call a special session of the Legislature to rebalance a runaway budget and to prohibit the lawmakers from working on any other issue until they fix the budget. Observers noted then that this was not really tough punishment for legislators since it did not offer any incentive for them to solve the problem.

Governor Schwarzenegger seems to have taken this critique to heart and he is now pushing a new reform—one he promised to take to the voters if the legislature does not enact it. This new plan sets a 45-day deadline. If after that time the legislature does not resolve the budget crisis, the governor will be authorized to tell the state controller to cut every budget item including salaries, local government support, schools, welfare, and all programs by whatever percentage is necessary to balance the budget. This is a tremendous hammer. It means the fiscal problem will be resolved in that same year either

by bipartisan agreement or by blind across-the-board reductions.

Those who oppose this reform should explain how to hold the legislature accountable if its members fail to act on a fiscal crisis within the 45 days.

*****State Budget Primer Part 1*****

California history is full of twists and turns. Until 1933, California had a majority vote budget, but the great revenue loss due to the Great Depression brought a number of new taxes, including the sales tax. To protect taxpayers, a new requirement was added that the budget had to be approved by two-thirds of the legislature rather than a majority if spending went up by more than 5%. In 1962 this 5% rule was repealed on the argument that every budget for decades had increased by more than 5%. Thus, today it takes a two-thirds vote of the Legislature to approve a budget.

There was an ongoing discussion during this entire period about whether the two-thirds vote only applied to spending in excess of the 5% level. For all the years from 1933 to 1962 it was not seriously contested and every budget received the required two-thirds vote. But the politics are interesting. If the majority passed a budget with no increases or minimal increases, then the debate would switch from the basic budget to the items of major increases. Would this better serve the public by focusing the budget discussion on the increases, or would it just allow last year's spending to run on autopilot?

*****Not Exactly*****

A reporter wrote a story last week that relied on a quote from this newsletter. The point of my piece was to decry name-calling by people of both parties because it distracts from the issues. Tom Elias, of DailyBreeze.com, decided to use my quote to attack the Governor. This is what he wrote:

"What's more, even some Republicans detested the tone of his (the Governor's) insults. 'The public hates name-calling and so do I,' wrote Bill Leonard, a longtime former GOP legislator now on the state Board of Equalization. 'I was once called one of the Three Stooges by a Republican disgruntled with my support for George W. Bush, then the governor of Texas. (It) quickly became a badge of honor.'"

Notice that Elias did not attribute this comment to the Leonard Letter; but more important, he omitted the fact that I was making a point about politicians in general, not singling out the Governor. This is what I actually wrote in the January 24th LL:

"The public hates name-calling and so do I. The Governor made headlines for making a comment about Three Stooges who oppose his budget. He was responding to one of those so designated who called his budget morally unbalanced. Since budget documents are neither moral nor immoral, it was clear that Treasurer Angelides was calling Schwarzenegger morally unbalanced. I am not making a whining plea for us all to get

along, but I am suggesting that the voters would be better informed if their leaders stuck to explaining why their proposals are good public policy and why other proposals are not so good. Schwarzenegger has made a good case for state government living within its means even as he explains that he proposes more borrowing to avoid real cuts. The Democrats pick and criticize parts of this proposal (all budgets are easy to pick apart), but they need to make a case for their own fiscal plan if it is to be a comparable alternative."

It was after all of this commentary about the failure of the Democrats to honestly provide alternative budget proposals and instead resort to name calling early on, that I discussed my own history being named one of the Three Stooges.

See the difference? Tom, next time pick up the phone and call me.

*****Different Kind of School Reform*****

Last week, Jack O'Connell, the State Superintendent of Public Instruction, was in my hometown of San Bernardino. I commend the Press Enterprise editorial that preceded his visit by pointing out a major discrepancy in his statements about public education reform. The Press Enterprise wrote, "O'Connell sends a contradictory message about vocational education. He says he wants to make college-prep the 'default' curriculum for high-schoolers, yet also says he 'recognizes' that academe isn't for everyone, and that many students need training to thrive in technical careers." It is not just that academe is not for everyone; it is that it is barely for anyone. Just more than 20% of California high school graduates go on to four-year colleges.

If we make the state's curriculum default to serve that 20%, we ignore the 80% who are either going straight to work or onto community college. We cannot be elitist and ignore both the needs of the majority of students and of California's job-creators who need employees who understand how to work well. High school students need options in their education and should not be ramrodded into either college prep or vocational ed programs. Rather, they should be able to sample from all and then choose a course of study that suits their needs and plans in consultation with their parents and counselors. When we talk about standards, we simply cannot have one standard that fits all. Our children deserve the best education that readies them for their future, and not everyone's future is college.

TAX NOTES

*****More Whining About Tax Credits*****

Democrats want to raise taxes in California, but most of them at least understand that expressing that intention out loud is bad news since most people do not want to pay higher taxes. Consequently, they have taken to disguising their efforts. You saw it in the last few weeks when there was criticism of the Board's following the law to refund sales tax to companies qualified for the Manufacturers Investment Credit (MIC). Those

companies paid the taxes and were entitled to a refund. Last week Lenny Goldberg was attacking again, criticizing California corporations for taking \$237 million in tax credits to reduce their tax liability to zero. That amount represents just 2.6% of the \$9.105 billion the state expects to collect in corporate taxes this year. Just like the dependent credit available to families, these corporate credits are a tiny portion of the total tax take. Our corporate tax rate is in the top tier of taxes nationwide and it does not distinguish between small and large companies. Mr. Goldberg is simply trying to whip up a frenzy for his ongoing effort to increase California's bank and corporate taxes. Given that the rough estimates of the state's deficit are as high as \$9 billion it would take a doubling of the corporate tax rate to try to raise this amount of money, not just the \$237 million that might be achieved by forbidding the use of credits to zero out tax liabilities. Of course, in this economy corporations can be very mobile and if the rate goes higher then more companies will simply leave California.

MISCELLANY

*****Different Kind of Electoral Contest*****

Although the data are raw, we believe that some 60% of Iraqis who were registered to vote turned out at the polls last week. They did so in the face of death threats, violence, armed forces, long lines, and having to walk to the polls. Consider that the Secretary of State reports the turnout of eligible California voters in last November's presidential election 57.03%. Even the 2003 California recall, which certainly was a high point of voter interest, only had a turn out of 43.12%. Our complacency is shamed by the willingness to stand for freedom we have seen in Iraq.

*****A Good Read*****

Next on the list of Human Events best biographies is "Crisis of the House Divided: An Interpretation of the Issues in the Lincoln-Douglas Debates" by Harry Jaffa. Jaffa's analysis of the debates was published 101 years after they occurred but shed new light on what was already understood to be a defining moment in American politics. In this work, Jaffa credits Lincoln with activating the natural rights cited in the Declaration of Independence. He elevated the principle of human equality to an animating force of the U.S. government, a cause that was most recently echoed by President George W. Bush in his State of the Union address last week.

BOE AND LEGISLATIVE DATES

February 1 – March 31, 2005 --- Application period for tax amnesty.

February 14, 2005 --- Abraham Lincoln's birthday observed.

February 21, 2005 --- George Washington's birthday observed.

March 17, 2005 --- Legislature's spring recess begins.

March 28, 2005 --- Cesar Chavez's birthday observed.

March 29, 2005 --- Legislature reconvenes from spring recess.

NOTABLE DATES/ HISTORY

February 7, 1795 --- The 11th Amendment to the U.S. Constitution was ratified, affirming the power of states.

February 8, 1957 --- San Francisco Public Library's bookmobile was initiated in front of City Hall.

February 9, 1825 --- The House of Representatives elected John Quincy Adams as the sixth U.S. President.

February 9, 1960 --- The first star was placed on the Hollywood Walk of Fame. The star was for Joanne Woodward.

February 9, 1964 --- The GI Joe character was created.

February 10, 1962 --- Captured American U-2 spy plane pilot Francis Gary Powers was released by the USSR in exchange for a Soviet spy held by the U.S.

February 10, 1981 --- Eight people died and nearly 200 were injured in a fire at the Las Vegas Hilton.

February 11, 1768 --- A letter by Samuel Adams opposing the Townsend Act taxes circulated around the American colonies.

February 11, 1812 --- Massachusetts Governor Elbridge Gerry signed a redistricting bill creating oddly shaped legislative districts and giving rise to the term "gerrymander."

February 11, 1945 --- FDR, Winston Churchill and Josef Stalin signed the Yalta Agreement settling the reorganization of Europe following World War II.

February 11, 1945 ---The first gas turbine propeller-driven airplane was flight tested in Downey, CA.

February 11, 1990 --- Nelson Mandela was freed after 27 years in a South African prison.

February 12, 1809 --- Abraham Lincoln was born in Hodgenville, KY.

February 12, 1892 --- President Lincoln's birthday was declared to be a national holiday.

February 12, 1915 --- The cornerstone was laid for the Lincoln Memorial in Washington, D.C.

February 13, 1924 --- King Tut's tomb was opened.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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